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June 1, 1994

Ms. Susan Ness
Commissioner
Federal Communications Commission
1919 M Street NW, Room 832
Washington, DC 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Dear Commissioner Ness:

It was a pleasure meeting with you yesterday on behalf of the Small Business PCS Association. From the point of view of a venture capitalist with investing experience in the wireless industry, I want to take this opportunity to submit a few facts pertinent to the case for PCS license set asides:

- Historically, small businesses in the wireless field have successfully competed against big entities.
 - Paging: (Similar to PCS in that there are numerous licenses per market.)
 - The RBOC owned paging businesses grew 5% annually versus industry growth of 18% between 1988-93.
 - Five of the nation's ten largest paging businesses are independent, venture-backed businesses. This includes industry leader PageNet, a venture-backed business more than three times as large as the largest RBOC operated paging provider.
 - SMR: (Similar to PCS in terms of infrastructure build-out capital requirements.)
 - The three largest SMR companies are all venture-backed businesses that entered the SMR field in the past 5-7 years.
 - Combined, these businesses have a 75%+ market share and a \$4 billion market capitalization. (They have also created 1,500+ new jobs.)
- Set-asides are a necessary part of any package aimed at ensuring that no artificial restraints are imposed on SWMR owned businesses' ability to raise and obtain capital to construct and operate PCS systems.
 - Discounts at any level are overridden by the following:
 - The cost of capital for larger entities is between 4.5% (LIBOR rate) - 7 1/4% (prime rate) vs. 25% for a SWMR (blend of 40% equity return required by venture capitalist; 23% subordinated debt borrowing rates; and 12% vendor equipment financing rates).
 - Larger entities have economies of scale and in place infrastructure that provide at least a 35% initial operating cost advantage.

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- Larger entities have capital resources 50 to 400 times greater (\$2.5 (Nextel) to \$40 (AT&T) billion) than the capital a SWMR can access (\$30-100 million).
- Given above imbalances, SWMR's can only compete effectively for licenses (i.e. not be disadvantaged) if bidding against other like entities.
- The U.S. economy will be benefited by the presence of SWMR operated businesses.
 - The auction revenues will not be significantly impacted by SWMR set-asides as depicted in the model provided you by the Small Business PCS Association.
 - According to a recently released report by Coopers & Lybrand, "The Fourth Annual Economic Impact of Venture Capital Study", small businesses have fueled job and economic growth in the U.S. for the past five years.
 - The 1,800 companies backed by the member firms of the National Venture Capital Association between 1988-1992:
 - Grew sales 22% versus .1% for the Fortune 500.
 - Created 4x the percentage of skilled jobs (60%) then the overall percentage of skilled jobs in the U.S. economy.
 - Created 19% annual job growth as compared to -.8% for the Fortune 500 companies.
 - Paid \$1.5mm per company more in taxes than prior to 1988 (in constant, tax rate, adjusted dollars).

Thank you for your consideration. Please feel free to call me at (212) 397-0177 if you would like to explore further any of the above points.

Sincerely,



Lisa Roumell
General Partner
First Century Partners